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Proposal: 1503 GECC Enhanced Prudential Standards and Reporting Requirement
Subject: Application of Enhanced Prudential Standards to GECC

Comments:

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Proposal: Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation [R-1503]

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For the record, WSSIG - the Wall Street Special Interest Group opposes regulation of GE Capital as a money center bank, because in substance it is not a bank, it is an industrial finance shop, which is different. Among the differences, GE has credit characteristics unlike most banks, because it is both financial and industrial, plus it is a major defense contractor. You could call it a double-barreled credit, in the sense there are both financial and industrial sources of credit strength, although that term has a different meaning within municipal finance. GE has some very serious problems today, as does GE Capital, but they are not a bank - they are an industrial finance shop, and there is a difference. Also, it is in America's national interest to let this difference exist. This said, both GE and GE Capital have very serious management problems. They are, along with many of our bulge bracket financial institutions, flouters of the SEC's CCO Reg, which is a very very serious regulation that is substantially non-technical in intent, rather intended as and designed to be a simple regulation that transforms corporate financial compliance from a file-cabinet operation in the Legal Department, into a quality-control goal-setting process that builds the company. Sadly, both GE and GE Capital flout this regulation. They are in this respect, part of the "group effort" within the bulge bracket of American finance who have chosen to circle the wagons with \$3000/hour attorneys rather than doing the right thing for free. In a seminar at GE headquarters that I attended, Jack Welch said "Skate to where the puck is going." Today, the puck is going to a place where corporations have to be more cognizant of their ethical conduct, not to be goodie-two-shoes, but a) to do the right thing as a matter of policy because that is the only proper policy, and b) to do the right thing because 99% of the time it is a better business decision on money terms alone. The GE Board needs to be cleaned out. It is set up to be a passive rubber stamp, and that is counterproductive at this time. Having Vanguard represented does not help, they are a narrow type of money manager who represents passivity as a strategy, and that is not helpful at a huge financial/industrial combine like GE. Similarly, the Board representative overseeing Governance is a bad fit relative to the business requirement - an ad exec is not likely to have a lot to offer to a mega size conglomerate in the area of corporate governance. The GE Board is set up to be a passive rubber stamp, and that is not good. Furthermore, the GE brass excludes people wishing to engage in

constructive dialog, such as WSSIG. God Forbid they have a meeting to discuss the four points we identified in our Public Letter as important points. God Forbid they have a meeting and discuss it. However, is this a matter for the government ? No, except to the extent that GE's role as a preferred defense contractor for the US Navy may need to be put under review. If GE can not bring itself to comply with the CCO reg, and to discuss the other three points listed in the open letter from WSSIG, they can not be allowed to coast along as a preferred defense contractor. If GE refuses to obey the law, refusing to comply with the SEC's CCO Reg, they can not be Navy's prime propulsion contractor, that is the bottom line. It is an insult to America, and we don't need that. However, regulating them like a bank does not make sense, because they are not a bank.

Matt Lechner Chairman

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